MOTION FILED
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No. 14-1513

IN THE

Supreme Court of the United States

HALO ELECTRONICS, INC.,

Petitioner,

v.

PULSE ELECTRONICS, INC., ET AL.,

Respondents.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

COMBINED MOTION FOR LEAVE TO FILE BRIEF OF *AMICI CURIAE* AND BRIEF OF *AMICI CURIAE* INDEPENDENT INVENTOR GROUPS IN SUPPORT OF PETITIONER

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Inventors Digest
National Society of Inventors
Inventors Network of the Capital Area
Texas Inventors Association
Columbus Phenix City Inventors Association
Music City Inventors Group
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MOTION FOR LEAVE TO FILE BRIEF OF *AMICI CURIAE*

Amici curiae have filed the accompanying brief in both *Halo Elecs., Inc. v. Pulse Elecs., Inc., et al.*, No. 14-1513, and *Stryker Corp., et al. v. Zimmer, Inc., et al.*, No. 14-1520. A motion for leave is required only in *Halo*, the captioned case. All parties in *Stryker* have consented in writing to the filing of the accompanying brief. Written consent has also been received from the petitioner in *Halo*. Respondents in *Halo*, however, have withheld consent without explanation.

So that the Court may consider the accompanying brief in both *Stryker* (No. 14-1520) and *Halo* (No. 14-1513), which raise similar issues, *amici curiae* respectfully move for leave to file the accompanying brief in *Halo* (No. 14-1513).

Good cause exists to grant the present motion. The Federal Circuit previously granted leave for *amicus curiae* Louis J. Foreman to file a similar brief in support of the petition for rehearing en banc in the *Halo* proceedings below, notwithstanding respondents' similar refusal to consent to such filing. *See* Order Granting Leave to File Amicus Brief, *Halo Elecs., Inc. v. Pulse Elecs., Inc., et al.*, No. 13-1472 (Fed. Cir. Jan. 8, 2015).

Amici curiae are independent inventor associations and individuals that rely on patents to protect their inventions. *Amici* are directly harmed by the

Federal Circuit's unduly narrow interpretation of 35 U.S.C. § 284 limiting the circumstances under which enhanced damages may be awarded in patent cases. *Amici* have a strong interest in ensuring that the U.S. patent laws are interpreted correctly and adequately protect innovation.

Collectively, *amici* have invested significant energy and personal resources on research and development in their respective technical fields. *Amici* rely on patents to protect those investments and to commercialize their discoveries through licensing. But the Federal Circuit's rigid and virtually insurmountable test for obtaining enhanced damages under § 284 incentivizes infringers to litigate patents rather than negotiate licenses, placing heavy burdens on small inventors and jeopardizing future investments by all but the largest multinationals.

The parties in the captioned cases are relatively large, established companies that do not necessarily represent the views and interests of *amici*. Therefore, in order to allow the Court to consider a greater spectrum of legal and policy implications raised in these cases, *amici* respectfully move for leave to file the attached brief.

Moreover, no party would be prejudiced by the submission of the accompanying brief. Petitioners have consented and respondents have sought a 31 day extension of time to file their brief in part based on *amici curiae*'s notification that they intend to submit the accompanying brief. Respondents will thus have ample time to review and respond to any issues raised in the brief.

For these reasons, *amici curiae* respectfully request that the Court grant leave to file the accompanying brief in *Halo* (No. 14-1513), which raises similar issues as and should be considered together with the brief in *Stryker* (No. 14-1520).

Respectfully submitted,

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INTEREST OF *AMICI CURIAE*[1]

> *A man's useful inventions subject him to insult, robbery, and abuse.* –Benjamin Franklin.[2]

Perhaps the most important feature of the American patent system is that it does more than simply encourage ordinary people to invent new products and services. It also makes it economically feasible for them to do so.

Amici curiae are individual inventors and associations that share a common interest in a robust patent system that encourages and appropriately rewards successful inventive pursuits. Collectively, *amici* have invested significant energy and personal resources on research and development in their respective technical fields. *Amici* rely on

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[1] In accordance with Supreme Court Rule 37.6, *amici curiae* certify that: (1) no counsel to a party authored this brief, in whole or in part, (2) no person or entity, other than the *amici* represented on this brief, their members, and their counsel, have made a monetary contribution to the preparation and submission of this brief, and (3) that counsel of record for all parties received notice of the intention to file this *amici curiae* brief at least 10 days prior to the due date for filing. Written consent of the parties has been obtained in Case No. 14-1520 and will be filed with the Clerk of the Court pursuant to Supreme Court Rule 37.2. Together with this brief, *amici curiae* have attached a motion for leave to file in Case No. 14-1513.

[2] ADDRESS OF THE ADVOCATE OF THE PATENTEES, INVENTORS OF USEFUL IMPROVEMENTS IN THE ARTS AND SCIENCES: IN DEFENCE OF MENTAL PROPERTY 9 (Dec. 19, 1806).

patents to protect those investments and to commercialize their discoveries through licensing. Due to their small size, *amici* oftentimes lack the resources or manufacturing ability to fully commercialize all aspects of an invention themselves and therefore must rely on licensing to bring their products to market. But a large company's incentive to take a license from a small inventor is all but eliminated, as in the cases at bar, if the only punishment for refusing a license and losing an infringement suit is a royalty.

Amici include: U.S. Inventor, Edison Nation, Inventors Digest, National Society of Inventors, Inventors Network of the Capital Area, Texas Inventors Association, Columbus Phenix City Inventors Association, Music City Inventors Group, Paul Morinville, James Innes, and Louis J. Foreman.

U.S. Inventor is a non-profit association of inventors devoted to protecting the intellectual property of individuals and small companies through education, advocacy, and reform. Believing the interests of larger corporations to be disproportionately overrepresented in the current discussion regarding patent reform, U.S. Inventor aims to encourage dialogue between lawmakers, inventors, and other patent stakeholders concerning the effects of past and proposed patent reform legislation and federal court decisions on the patent rights of small businesses and sole inventors.

Louis J. Foreman is founder and Chief Executive of Enventys, the CEO of Edison Nation and Edison Nation Medical, the Executive Producer of the

award- winning PBS show Everyday Edisons, author of The Independent Inventor's Handbook, and publisher of Inventor's Digest. Himself an inventor on twelve U.S. patents, Mr. Foreman has created nine successful start-ups and has been directly responsible for the creation of over twenty others.

Amici join together in this brief to underscore the importance of patents to independent inventors and entrepreneurs who rely on licensing from willing licensees to commercialize inventions. Without the economic returns of a license taken by a willing licensee, inventors have less incentive to engage in costly R&D, and investors have less incentive to fund small start-ups.

SUMMARY OF ARGUMENT

The text of 35 U.S.C. § 284 places no limits on a district court's discretion to enhance damages in patent cases. The statute simply provides that "the court may increase the damages up to three times the amount found or assessed." The Federal Circuit, however, has artificially constrained lower courts' discretion by engrafting a "willfulness" requirement onto the statue. By further defining "willfulness" using a rigid two-part objective/subjective test that mirrors the test this Court overturned in *Octane Fitness, LLC v. Icon Health and Fitness, Inc.*, 134 S. Ct. 1749 (2014), the Federal Circuit's narrow interpretation of § 284 runs contrary to both the plain language of the current statute and decisions of this Court from over a century ago interpreting the statute's predecessors.

The Patent Act of 1836 first gave courts discretion to increase damages in patent cases based simply on the "circumstances of the case." Patent Act of 1836, ch. 357, § 14, 5 Stat. 117 (1836). In the ensuing decades, never did this Court limit those circumstances to instances of "willful" patent infringement. Instead, this Court explained that enhanced damages were broadly available, for example, where "the defendant has not acted in good faith, or has been stubbornly litigious, or has caused unnecessary expense and trouble to the plaintiff," *Day v. Woodworth*, 54 U.S. 363, 372 (1851), and also to compensate the plaintiff for the "trouble the plaintiff has been put to by the defendant, and any special inconvenience he has suffered from the wrongful acts of the defendant," *Clark v. Wooster*, 119 U.S. 322, 326 (1886).

This Court's decision in *Octane Fitness* casts further doubt on the Federal Circuit's two-part test for enhancing damages under § 284. In *Octane Fitness*, this Court struck down a similarly rigid, two-part test for awarding attorney fees under 35 U.S.C. § 285, holding that the Federal Circuit "superimpose[d] an inflexible framework onto statutory text that is inherently flexible." 134 S. Ct. at 1751. Moreover, the permissive language of § 284 is even more flexible than that of § 285, because the former is not limited to a finding that a case is "exceptional." *Compare* 35 U.S.C. § 284 ("[T]he court may increase the damages up to three times the amount found or assessed."), *with* 35 U.S.C. § 285 ("The court in exceptional cases may award reasonable attorney fees to the prevailing party.").

The Federal Circuit had an opportunity to resolve these issues in the captioned case and in *Stryker Corp. v. Zimmer, Inc.*, 782 F.3d 649 (Fed. Cir. 2015), also currently on petition for writ of certiorari, but declined, despite the dissent of two judges and the concurrence of two others who acknowledged "fundamental questions about the substantive standards" of enhanced damages under § 284. *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 780 F.3d 1357, 1359 (Fed. Cir. 2015) (Taranto, Reyna, JJ., concurring); *id.* at 1361-64 (O'Malley, Hughes, JJ., dissenting); *Stryker*, 782 F.3d at 649.

This Court should grant certiorari in the captioned case and in *Stryker* (No. 14-1520) to correct the Federal Circuit's misreading of 35 U.S.C. § 284.

ARGUMENT

I. The Federal Circuit's Two-Part Objective/Subjective Test for Enhancing Damages is Contrary to Statute and this Court's Decisions

a. The plain text of 35 U.S.C. § 284 gives district courts wide discretion to increase damages: "[T]he court may increase the damages up to three times the amount found or assessed." The legislative history from the 1946 revision to the Patent Act underscores this discretion, explaining that "the present discretion to award triple damages . . will discourage infringement of a patent by anyone thinking that all he would be required to pay if he loses the suit would be a royalty." S. Rep. No. 79-1503, at 2 (1946).

That discretion was first introduced in the Patent Act of 1836, ch. 357, § 14, 5 Stat. 117 (1836): "[I]t shall be in the power of the court to render judgment for any sum above the amount found by such verdict . . . not exceeding three times the amount thereof, according to the circumstances of the case . . . ." That discretion remained unchanged in the Patent Act of 1870, ch. 230, § 59, 16 Stat. 198, 207 (1870) ("[T]he court may enter judgment thereon for any sum above the amount found by the verdict as the actual damages sustained, according to the circumstances of the case, not exceeding three times the amount of such verdict, together with the costs.").

Interpreting the 1836 and 1870 Patent Acts, this Court repeatedly emphasized the inherent flexibility of the enhanced damages provisions, and never limited trial courts' discretion to any particular circumstances, much less a finding of "willfulness":

- *Topliff v. Topliff*, 145 U.S. 156, 174 (1892) ("Under these circumstances"—i.e., where "*defendant, knowing all their customers and plaintiffs' facilities for the manufacture of equalizers, made serious inroads upon their business, and sold almost exclusively to those who had formerly been customers of the plaintiffs*"—"we should not have disturbed the decree of the court below if it had seen fit to increase the damages . . . .") (emphasis added).

- *Tilghman v. Proctor*, 125 U.S. 136, 143-44 (1888) ("[T]he court may, *whenever the circumstances of the case appear to require it*, inflict vindictive or

punitive damages, by rendering judgment for not more than thrice the amount of the verdict.") (emphasis added).

- *Clark v. Wooster*, 119 U.S. 322, 326 (1886) ("There may be damages beyond [a reasonably royalty], such as the *expense and trouble the plaintiff has been put to by the defendant, and any special inconvenience he has suffered from the wrongful acts of the defendant*; but these are more properly the subjects of allowance by the court under the authority given to it to increase the damages.") (emphasis added).

- *Birdsall v. Coolidge*, 93 U.S. 64, 69-70 (1876) ("Courts could not, under [the act of 1836], augment the allowance made by the final decree [in actions in equity], as in the case of the verdict of a jury [in actions at law]; but the present patent act [of 1870] provides that the court shall have the same *powers to increase the decree, in its discretion*, that are given by the act to increase the damages found by verdicts in actions at law.") (emphasis added).

- *Teese v. Huntingdon*, 64 U.S. 2, 9 (1860) ("[I]f, in the opinion of the court, the defendant has not acted in good faith, or *has caused unnecessary expense and injury to the plaintiff*, the court may render judgment for a larger sum, not exceeding three times the amount of the verdict.") (emphasis added).

- *Dean v. Mason*, 61 U.S. 198, 203 (1858) ("Generally, [an award of lost profits] is sufficient to protect the rights of the owner; but *where the*

wrong has been done, under aggravated circumstances, the court has the power, under the statute, to punish it adequately, by an increase of the damages.") (emphasis added).

- *Seymour v. McCormick*, 57 U.S. 480, 488-89 (1853) ("The power to inflict vindictive or punitive damages is committed to the *discretion and judgment of the court* within the limit of trebling the actual damages found by the jury.") (emphasis added).

- *Day v. Woodworth*, 54 U.S. 363, 372 (1851) ("[I]f, in the opinion of the court, the defendant has not acted in good faith, or has been *stubbornly litigious, or has caused unnecessary expense and trouble to the plaintiff*, the court may increase the amount of the verdict, to the extent of trebling it.") (emphases added).

b. Despite that history, and contrary to the "plain meaning of the statute," the Federal Circuit "has nevertheless read a willfulness standard into the statute." *In re Seagate Tech., LLC*, 497 F.3d 1360, 1377 (Fed. Cir. 2007) (Gajarsa, J., concurring) (arguing that "there is no principled reason for continuing to engraft a willfulness requirement onto section 284"). Further cabining the statute, the en banc court in *Seagate* defined "willfulness" narrowly using a two-part test that requires a clear-and-convincing showing of (1) an "objectively high likelihood [of] infringement" which was (2) subjectively "known or . should have been known" to the infringer. *Id.* at 1371.

As the dissenting judges in the proceedings below correctly explained, the two-part *Seagate* test "is analogous to the test [the Federal Circuit] prescribed for the award of attorneys' fees under [35 U.S.C.] § 285" which was "overruled by *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1757-58 (2014)." *Halo*, 780 F.3d at 1361 (O'Malley, Hughes, JJ., dissenting).

In particular, this Court in *Octane Fitness* struck down the Federal Circuit's two-part objective/subjective test under § 285 because that test "superimpose[d] an inflexible framework onto statutory text that is inherently flexible." 134 S. Ct. at 1756. Indeed, a court's discretion to enhance damages under § 284 is *even broader* than the discretion to shift fees under § 285, because the former is not limited to a finding that the case is "exceptional."

c. This Court's decision in *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476 (1964) did not purport to alter a century's worth of precedent interpreting § 284 and its predecessors. In *Aro*, this Court merely said, in passing, that the patentee "could" recover treble damages under circumstances of willful or bad-faith infringement. 377 U.S. at 508. That statement is properly interpreted to mean that "a finding of willfulness is *sufficient*" to enhance damages; it "cannot be interpreted to mean that enhanced damages are *limited* to a finding of willfulness." *Seagate*, 497 F.3d at 1381 (Gajarsa, J., concurring) (emphases added).

d. Apart from unnecessarily engrafting "willfulness" onto § 284, the Federal Circuit has

defined willfulness with its own two-part objective/subjective test that bears almost no resemblance to the traditional tort doctrine.

Specifically, under the Federal Circuit's "objective" prong for willfulness, an infringer's pre-suit infringement can be deemed not willful if its attorneys, in the litigation, devise a "not unreasonable" defense, developed for the first time post-suit. *Stryker Corp. v. Zimmer, Inc.*, 782 F.3d 649, 654, 657, 661, 662 (Fed. Cir. 2015). By this logic, as commenters have observed, "an infringer who made the intentional decision to infringe, believing fully that the act was infringement, and that was later judged to be infringing can still avoid being stuck with enhanced damages with a later-concocted (but ultimately incorrect) argument that the patent is invalid or not infringed—so long as that argument is 'susceptible to a reasonable conclusion.'" Dennis Crouch, *No Willful Infringement Since Infringer's Litigation Arguments Were "Not Without Reason"*, Patently-O (Dec. 19, 2014), http://patentlyo.com/patent/2014/12/infringement-infringers-litigation.html (quoting *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1310 (Fed. Cir. 2011)).

The above "willfulness" test for patent infringement now looks nothing like the traditional tort doctrine in civil cases. *See Farmer v. Brennan*, 511 U.S. 825, 836 (1994); Prosser and Keeton on Law of Torts § 34, p. 213-14 (5th ed. 1984); Restatement (Second) of Torts § 500 (1965)). Under the traditional doctrine, a person's conduct is not judged on the reasonableness of his attorney's legal

arguments minted years later, nor judged from the vantage of an omniscient person aware of all facts in the world. Rather, "[a] person acts recklessly in engaging in conduct if: (a) the person *knows* of the risk of harm created by the conduct or *knows* facts that make the risk obvious to *another in the person's situation*, and (b) the precaution that would eliminate or reduce the risk involves burdens that are so slight relative to the magnitude of the risk as to render the person's failure to adopt the precaution a demonstration of the person's indifference to the risk." Restatement (Third) of Torts: Phys. & Emot. Harm, § 2 (2010) (emphases added).

In *Safeco Ins. Co. of Am. v. Burr*, 551 U.S. 47 (2007), this Court held that Safeco did not "willfully" violate the Fair Credit Reporting Act because "Safeco's *misreading* of the statute *was* not reckless." *Id.* at 71 (emphases added). Thus, Safeco actually *read* the statute but operated under a mistaken interpretation *at the time it violated the statute*. *See id.* at 70 (analogizing to *Saucier v. Katz*, 533 U.S. 194, 202 (2001), and asking "whether an action was reasonable in light of legal rules that were *'clearly established' at the time*") (emphasis added).

e. The statutory presumption of validity, 35 U.S.C. § 282(a), prevents an infringer, who is notified of a patent, from burying its head in the sand and refusing to take a license on the mere hope that one day its attorneys will conjure a "not unreasonable" litigation defense. Section 282(a) states, in relevant part, "[a] patent shall be presumed valid." That presumption exists at all times after a patent has issued—including when a licensing offer is sent to a

potential infringer—and remains "*until* the presumption has been *overcome* by convincing evidence of error." *Microsoft Corp. v. i4i Ltd. P'ship*, 131 S. Ct. 2238, 2248 (2011) (quoting *Radio Corp. of Am. v. Radio Eng'g Labs.*, 293 U.S. 1, 7 (1934)) (emphases added). Therefore, if the statutory presumption of validity is to have any real meaning, an infringer who refuses a reasonable licensing offer ought to have a good reason for its refusal at the time.

II. The *Halo* and *Stryker* Petitions Implicate Billions of Dollars of Gross Domestic Product and the Future of America's Small Inventors

> *A man's useful inventions subject him to insult, robbery, and abuse.* –Benjamin Franklin.[3]

The U.S. Department of Commerce has calculated that intellectual property intensive industries support at least 40 million American jobs and contribute more than $5.06 trillion dollars to, or nearly 34.8 percent of, U.S. gross domestic product. U.S. Dep't of Commerce, *Intellectual Property and the U.S. Economy: Industries in Focus* vi-vii (Mar. 2012). In 2009, Americans received $89.8 billion in intellectual property royalties and license fees, while

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[3] ADDRESS OF THE ADVOCATE OF THE PATENTEES, INVENTORS OF USEFUL IMPROVEMENTS IN THE ARTS AND SCIENCES: IN DEFENCE OF MENTAL PROPERTY 9 (Dec. 19, 1806).

paying foreigners only $25.2 billion—giving the United States a *$64.6 billion trade surplus* in IP licensing. *Id.* at 54.

Licensing is critical to independent inventors and entrepreneurs who do not have the means to commercialize their inventions themselves. What they have instead is patents. A study commissioned by the Small Business Administration found that: (1) "Small businesses develop more patents per employee than larger businesses, with the smallest firms, those with fewer than 25 employees, producing the greatest number of patents per employee"; and (2) "small firms are much more likely to develop emerging technologies than are large firms."[4]

But the incentive to pay a small inventor for a license is all but eliminated when an infringer is allowed—as in the proceedings below—to *deliberately copy* a patented product, *reject* the patentee's licensing offers, *refuse* to negotiate, obtain *no opinion* of counsel, *infringe* the patent for years, *poach customers*, and then—after being sued for infringement—concoct a litigation defense that is *unsuccessful* (but at least not rock-bottom "frivolous" or a "sham") and ultimately pay the patentee only a "reasonable royalty" in damages. This "reasonable royalty" is the same amount the infringer would

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[4] Anthony Breitzman & Diana Hicks, An Analysis of Small Business Patents By Industry and Firm Size i, v (Nov. 2008), *available at* http://archive.sba.gov/advo/research/rs335tot.pdf.

have paid if it had taken a license in the first place. *See Powell v. Home Depot U.S.A., Inc.*, 663 F.3d 1221, 1238 (Fed. Cir. 2011) ("[T]he reasonable royalty must be based on the terms of a [hypothetical] licensing agreement reached . . . between the patentee and the infringer at the time infringement began.") (alteration in original; internal quotations omitted) (quoting *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1554 (Fed. Cir. 1995) (en banc)). The lesson for infringers today is clear: refuse a license from a small inventor because you will pay the inventor the same (unenhanced) royalty post-suit in damages if you lose the suit that you would have paid for the license pre-suit.

Giving district courts the discretion to enhance damages under these circumstances, as Congress intended, would "discourage infringement of a patent by anyone thinking that all he would be required to pay if he loses the suit would be a royalty." S. Rep. No. 79-1503, at 2 (1946).

CONCLUSION

For the foregoing reasons, this Court should grant certiorari to correct the Federal Circuit's interpretation of 35 U.S.C. § 284.

Respectfully submitted,

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